

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 IO-13 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 STR-04
CEA-01 AGRE-00 ACDA-07 /108 W
-----250933Z 035196 /15

R 250805Z MAY 77

FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 4122
INFO AMEMBASSY TOKYO
AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 4376

HONG KONG FOR REG FINATT

EO 11652: GDS
TAGS: EGEN, ETRD, EFIN, MPOL, MASS, KS
SUBJECT: KOREAN PLANNERS TO DETERMINE HIGH AND LOW RANGES
FOR FIVE YEAR PLAN

REF: SEOUL 3991

SUMMARY: APPARENTLY PROMPTED BY THE BLUE HOUSE DESIRE
TO STEP UP INVESTMENT AND FOREIGN BORROWING, CHIEFLY
FOR DEFENSE PURPOSES, THE ECONOMIC PLANNING BOARD (EPB)
IS UNDERTAKING AN INFORMAL, AND CONFIDENTIAL, PLANNING
EFFORT TO DETERMINE BOTH THE HIGH AND LOW RANGES FOR
THE MAJOR TARGETS OF THE FOURTH FIVE YEAR PLAN (FFYP).
EPB ACCEPTANCE OF THIS TASK IS AT LEAST PARTIALLY
MOTIVATED BY A DESIRE TO PUT A DAMPER ON A RASH OF
RECENT "BACK OF THE ENVELOPE" SPECULATION THAT KOREA
CAN ACHIEVE ITS FIVE YEAR ECONOMIC GOALS IN FOUR YEARS.
EPB INTENDS TO POINT OUT THAT IT IS ALSO POSSIBLE THAT
KOREA COULD FALL SHORT OF ITS TARGETS AND THAT, IN ANY
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EVENT, REVISIONS OF ANY PARTICULAR TARGET MUST BE
VIEWED IN TERMS OF ITS EFFECT ON THE PLAN AS A WHOLE.
WE DO NOT EXPECT EITHER THE HIGH OR LOW RANGE TO VARY
WIDELY FROM THE BASIC FFYP AND ANTICIPATE THAT EPB
WILL COUNSEL CAUTION ABOUT STRAYING VERY FAR FROM THE
PRINCIPAL ASSUMPTIONS OF THE FFYP. END SUMMARY.

1. DR. KIM JAE-IK, DIRECTOR OF THE ECONOMIC PLANNING BUREAU OF THE ROKG ECONOMIC PLANNING BOARD (EPB), HAS CONFIRMED TO US THAT HIS BUREAU IS UNDERTAKING A PLANNING EXERCISE TO IDENTIFY THE HIGH AND LOW RANGES FOR THE 1977-81 FOURTH FIVE YEAR PLAN (FFYP). HE EXPECTED THAIS TO TAKE ABOUT TWO MONTHS. THE EXERCISE WILL FALL SHORT OF A FULL FLEDGED PLANNING EFFORT AND THE RESULTS WILL NOT BE PUBLICLY ANNOUNCED. VARIOUS OTHER SOURCES, IN FACT, HAVE DENIED THAT SUCH A PLANNING EFFORT WILL BE MADE, PRESUMABLY EITHER BECAUSE THE STUDY IS SUPPOSED TO BE CONFIDENTIAL OR ON THE SEMANTIC GROUNDS THAT IT IS NOT A FORMAL PLANNING EXERCISE.

2. KIM HAD EARLIER DISMISSED AS IDLE SPECULATION A SPATE OF NEWS STORIES TO THE EFFECT THE ROKG WAS CONSIDERING TRYING TO ACHIEVE THE FFYP'S FIVE YEAR GOALS IN FOUR YEARS. WHAT APPARENTLY STARTED AS IDLE SPECULATION, HOWEVER, SOON PROMPTED INQUIRIES FROM THE BLUE HOUSE. THE BLUE HOUSE INTEREST, FROM WHAT WE HAVE BEEN ABLE TO DETERMINE, IS CONCERNED CHIEFLY WITH THE POSSIBILITY OF ADDITIONAL RESOURCES BEING MADE AVAILABLE FOR DEFENSE PURPOSES OR, AS A DECIDEDLY LOWER PRIORITY, FOR GETTING STARTED ON THE PLAN TO MOVE THE ADMINISTRATIVE CAPITAL OUT OF SEOUL.

3. KIM MAHN-JE, PRESIDENT OF THE HIGHLY-REGARDED ECONOMIC THINK-TANK, THE KOREA DEVELOPMENT INSTITUTE (KDI). HAD EARLIER TOLD US THAT KDI WAS RECENTLY ASKED CONFIDENTIAL

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BY THE BLUE HOUSE FOR A HURRY-UP PRELIMINARY STUDY ON THE POSSIBILITY OF ACCELERATING INVESTMENT AND GROWTH. HE CONSIDERED THE REQUEST TO BE PROMPTED BY CONCERN OVER THE U.S. GROUND TROOP WITH-DRAWAL ISSUE WHICH WAS SPURRING BLUE HOUSE INTEREST IN STEPPING UP INVESTMENT AND FOREIGN BORROWING. THE LION'S SHARE OF THESE ADDITIONAL RESOURCE WOULD GO TO THE HEAVY AND CHEMICAL INDUSTRIES WITH A PARTICULAR EMPHASIS ON ACCELERATIONG EXPANSION OF DEFENSE INDUSTRIES AND FOREIGN EXCHANGE EARNING (OR SAVING) INDUSTRIES WHICH WOULD GENERATE FOREIGN EXCHANGE FINANCING FOR DEFENSE EXPENDITURES. KDI'S STUDY WAS COMPLETED IN THREE DAYS. KIM WAS NONCOMMITAL AS TO THE CONCLUSIONS EXCEPT TO COMMENT THAT IT WAS NOT REALLY POSSIBLE TO ACCELERATE MOST OF THE MAJOR HEAVY INDUSTRY PROJECTS WITHIN THE FFYP TIMEFRAME. HE ADDED THAT KDI WAS NOW OUT OF THE PICTURE AND THE MATTER WAS IN EPB'S HANDS.

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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 4376

4. EPB'S KIM JAE-IK, IN TURN, DESCRIBED HIS BUREAU'S
ACCEPTANCE OF THE TASKE AS BEING MOTIVATED IN LARGE
PART BY A DESIRE TO PUT A CAP ON THE AMATEURISH
FORECASTING THAT HAS RESULTED AS THE GAME OF SPECULATING
ABOUT ACCELERATING THE FFYP SPREAD TO OTHER ROKG
MINISTRIES AND EVEN TO NEWSPAPER EDITORIAL WRITERS.
A MINISTRY OF FINANCE (MOF) SOURCE, FOR EXAMPLE,
RECENTLY SHOWE US A REVISED INTERNAL MOF 1977-81
BALANCE OF PAYMENTS FORECAST SHOWING THE CURRENT
ACCOUNT MOVING INTO SURPLUS IN CURRENT PRICES IN 1978,
WITH EXPORTS REACHING 23 BILLION IN 1981 INSTEAD OF
THE \$20 BILLION FORECAST IN THE FFYP. MOF, AS IS
ITS WONT, PLANNED TO SQUIRREL AWAY MOST OF THE LARGER-
THAN-ANTICIPATED FOREIGN EXCHANGE EARNINGS AS GROSS
FOREIGN EXCHANGE RESERVES, WHICH WERE ESTIMATED TO
REACH \$9 BILLION INSTEAD OF \$6 BILLION BY END-1981.
KIM DESCRIBED THE REVISED FORECASTS POPPING UP FROM
SUCH SOURCES AS "BACK OF THE ENVELOPE" EXERCISES,
FOCUSING ON ONE OR TWO SECTORS OF THE ECONOMY IN
ISOLATION. REFLECTING THE MOOD OF ECONOMIC OPTIMISM
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GENERATED BY LAST YEAR'S SPECTACULAR PERFORMANCE AND

THE FAST START FOR 1977 EXPORTS, THESE SPECULATIONS HAVE INVARIABLY ASSUMED THAT KOREA WOULD EXCEED ITS TARGETS, NEVER CONSIDERING THAT IT WAS ALSO POSSIBLE THAT KOREA COULD FALL SHORT OF ITS GOALS IF THE INTERNATIONAL ECONOMIC CLIMATE WENT SOUR AGAIN. KIM SAW KPB'S TASK AS BEING TO EMPHASIZE THAT THERE IS A LOW AS WELL AS A HIGH RANGE AND TO DEMONSTRATE THE IMPLICATIONS OF A REVISION IN ANY ONE SECTOR FOR THE PLAN AS A WHOLE.

5. KIM STRESSED THAT THE PLANNERS ALL ALONG HAVE INTENDED TO INTRODUCE ADDITIONAL FLEXIBILITY INTO THE PLANNING PROCESS BY PRODUCING ROLLING THREE YEAR PLANS TO ADJUST FOR CHANGING CIRCUMSTANCES. EPB ALSO PLANS TO RELEASE A PRELIMINARY VERSION OF THE 1978 OVERALL RESOURCES BUDGET (ORB), THE ANNUAL PLANNING DOCUMENT, IN JUNE OF THIS YEAR WHICH WILL INCLUDE TENTATIVE TARGETS FOR 1979 AS WELL. THIS WOULD BE A DEFINITE BREAK FROM PAST PRACTICE IN WHICH THE ORB HAS NOT BEEN RELEASED UNTIL SEVERAL MONTHS INTO THE PLANNING YEAR AND HAS BEEN LIMITED TO TARGETS FOR A SINGLE YEAR.

6. COMMENT: THE IDEA OF ATTEMPTING TO STEP UP INVESTMENT AND BORROWING TO INCREASE DEFENSE EFFORTS APPEARS ALREADY TO HAVE GONE BEYOND THE EXPLORATORY STAGE. IT IS NOTWORTHY THAT THE APPROACH SO FAR HAS BEEN TO TRY FIRST TO DETERMINE WHAT THE ECONOMIC CONSTRAINTS WILL PERMIT. JUDGING FROM KIM JAE-IK'S COMMENTS, WE DO NOT ANTICIPATE THAT EITHER THE HIGH OR LOW RANGE EPB PRODUCES IS LIKELY TO VARY WIDELY FROM THE BASIC FFYP. EPB, MOREOVER, IS ALMOST CERTAIN TO POINT UP THE SIGNIFICANCE OF THE DOMESTIC SAVINGS CONSTRAINT, DEMONSTRATING THAT A HIGHER INVESTMENT LEVEL CANNOT REALISTICALLY BE SUPPORTED UNLESS THE ROKG IS WILLING

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TO FOREGO THE POLITICALLY POPULAR GOAL OF CLOSING THE BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT. EVEN WITH THAT CONSTRAINT REMOVED, GENERATING ADDITIONAL GROWTH AND FOREIGN EXCHANGE AVAILABILITIES THROUGH EXPORT PRODUCTION WOULD STILL DEPEND ON WORLD DEMAND AS EPB'S COMMENTS SUGGEST. HOWEVER, THAT APPROACH WOULD ALSO OPEN THE DOOR FOR EXPLORING THE POSSIBILITIES FOR EXPANDING DEFENSE PRODUCTION INVESTMENT AND DEFENSE EXPENDITURES THROUGH INCREASED FOREIGN BORROWING. WE EXPECT THAT, IN ANY EVENT, EPB WILL CONTINUE TO COUNSEL CAUTION ABOUT STRAYING VERY FAR FROM THE BASIC ASSUMPTIONS AND FORECASTS OF THE FFYP. A CONTINUATION OF RECENT TRENDS IN KEY ECONOMIC INDICATORS, E.G., THE INDUSTRIAL PRODUCTION

INDEX SHOWING THE JAN-MARCH AVERAGE OF INDUSTRIAL PRO-
DUCTION UP JUST 13.5 PERCENT OVER LAST YEARS FIRST
QUARTER AND EXPORT LETTER-OF -CREDIT DATA SHOWING ARRIVALS
THROUGH APRIL, I.E., NEW EXPORT ORDERS, UP JUST 23
PERCENT OVER A YEAR EARLIER (SEE REFTTEL), MAY ALSO
BEGIN TO THROW A LITTLE COLD WATER ON SOME OF THE OVER-
CONFIDENCE THAT EARLY YEAR EXPORT TOTALS HAVE TENDED
TO GENERATE.
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Message Attributes

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